

Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00
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FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 356
INFO AMEMBASSY COLOMBO
AMEMBASSY DACCA
AMEMBASSY ISLAMABAD
AMEMBASSY KABUL
AMEMBASSY KATHMANDU
AMCONSUL BOMBAY
AMCONSUL CALCUTTA
AMCONSUL MADRAS

UNCLAS SECTION 1 OF SECTION 2 NEW DELHI 4461

E.O. 11652: N/A
TAGS: ECON, IN
SUBJECT: 1978-79 ANNUAL PLAN ISSUES

REF: NEW DELHI 3375

SUMMARY. TOTAL EXPENDITURES OF THE 1978-79 ANNUAL PLAN ARE
PROJECTED AT RS.116.5 BILLION, OR 16.9 PERCENT HIGHER (IN CURRENT
PRICES) THAN THE 1977-78 PLAN. THE GENERAL REACTION OF ECONOMISTS
AND BUSINESSMEN HAS BEEN THAT THIS INCREASE IS TOO MODEST
AND THAT THE PLAN IS NOT SUFFICIENTLY BOLD TO STIMULATE THE ECONOMY
TO A HIGHER GROWTH PATTERN. ACCORDING TO FINANCE MINISTER PATEL,
JUST OVER 40 PERCENT OF PLAN EXPENDITURES WILL GO FOR AGRI-
CULTURE AND RURAL DEVELOPMENT, BUT THERE HAS BEEN CONSIDERABLE
CONROVERSY,
PARTICULARLY WITHIN THE JANAT PARTY, OVER THIS ISSUE. ACCORDING
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TO PRESS REPORTS, HOME MINISTER CHARAN SINGH HAS ARGUED THAT THE
PROPOSED OUTLAYS ON AGRICULTURE ARE INSUFFICIENT, WHILE PETRO-
LEUM/CHEMICALS MINISTER BAHUGUNA HAS CLAIMED THAT THERE IS TOO
MUCH EMPHASIS IN THE PLAN ON AGRICULTURE, PARTICULARLY SINCE PAST
PUBLIC
SECTOR INPUTS THERE HAVE BENEFITTED THE RURAL ELITE. WE THINK
THAT PATEL HAS ATTEMPTED WITH SOM SUCCESS TO SHIFT PLANNED

SPENDING TOWARD THE JANATA'S ECONOMIC PRIORITIES, BUT HOW TO TRANSLATE THESE GOOD INTENTIONS INTO REALITY REMAINS THE 64 DOLLAR QUESTION. END SUMMARY.

2. SIZE OF PLAN. THE INCREASE OF ALMOST 17 PERCENT IN 1978-79 PLANNED SPENDING IS RELATIVELY SMALL. WE UNDERSTAND THAT THE RS. 116.5 BILLION PLAN WAS THE LOWER OF TWO FIGURES PROPOSED BY THE PLANNING COMMISSION, BUT PRIME MINISTER DESAI AND PATEL APPARENTLY DECIDED NOT TO ACCEPT MORE AMBITIOUS PLAN EXPENDITURES AND TARGETS. THE 1978-79 PLAN DOCUMENT WILL NOT BE AVAILABLE UNTIL AFTER IT IS PRESENTED TO PARLIAMENT PROBABLY IN APRIL.

3. THE GENERAL, BUT NOT UNANIMOUS, REACTION OF ECONOMISTS AND BUSINESSMEN HAS BEEN THAT THE PLAN IS NOT VERY BOLD OR IMAGINATIVE. ACCORDING TO ONE ARGUMENT, IF THE LAST TWO PLANS, EACH WITH EXPENDITURE INCREASES OF CLOSE TO 30 PERCENT IN NOMINAL TERMS DID NOT MOVE THE ECONOMY TO A HIGHER GROWTH PATTERN, CAN A MORE MODEST PLAN DO SO? THE ACCENT ON POWER, IRRIGATION, AND RURAL INDUSTRIES WILL INITIALLY INCREASE DEMAND FOR CEMENT, STEEL AND OTHER CONSTRUCTION MATERIALS, WHICH ARE NOT THE INDUSTRIAL SECTORS NOW PLAGUED BY LACK OF DEMAND. ONLY IF EMPLOYMENT INCREASES AS A RESULT OF THESE PROJECTS CAN THERE BE A LAGGED INCREASE IN DEMAND FOR CONSUMER GOODS WHOSE SALES ARE NOW MOST SLUGGISH. THERE IS ALSO THE POSSIBILITY THAT PROJECTS PLANNED SEVERAL YEARS UNCLASSIFIED

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AGO BUT ONLY NOW BEING IMPLEMENTED WILL LEAD TO HIGHER PURCHASING POWER.

4. OUTLAYS FOR AGRICULTURE AND RURAL DEVELOPMENT. IN EXPLAINING THE 1978-79 PLAN TO THE PARLIAMENT, PATEL EMPHASIZED THAT 40.3 PERCENT OF EXPENDITURES (RS.46.9 BILLION) WOULD BE FOR "AGRICULTURE AND RURAL DEVELOPMENT", THEREBY FULFILLING A PROMISE IN THE JANATA PARTY ELECTION MANIFESTO. (THIS OVERALL CATEGORY INCLUDES RURAL ELECTRIFICATION, 15 PERCENT OF OTHER POWER OUTLAYS, 75 PERCENT OF HEALTH AND FAMILY PLANNING EXPENDITURES, VILLAGE AND SMALL INDUSTRIES, RURAL WATER SUPPLIES AND RURAL ROADS). TOTAL SPENDING IN THIS CATEGORY IN THE 1977-78 PLAN AMOUNTED TO SLIGHTLY OVER 37 PERCENT OF TOTAL EXPENDITURES.

5. CONSIDERABLE CONTROVERSY, PARTICULARLY WITHIN THE JANATA PARTY, HAS BEEN GENERATED BY PLANNED SPENDING FOR AGRICULTURAL/ RURAL DEVELOPMENT. HOME MINISTER CHARAN SINGH AND SOME OF HIS SUPPORTERS HAVE REPORTEDLY CLAIMED THAT NO ENOUGH PLAN EXPENDITURES ARE BEING DEVOTED TO AGRICULTURE. HE HAS TAKEN THE STAND THAT ONLY AGRICULTURE AND ALLIED ACTIVITIES PLUS IRRIGATION/FLOOD CONTROL SHOULD BE COUNTED AS FALLING UNDER

THE CATEGORY OF AGRICULTURE - EXPENDITURES IN THESE CATEGORIES
ACCOUNT FOR ONLY 25 PERCENT OF THE TOTAL. THIS STAND IS
THROUGHLY CONSISTENT WITH CHARAN SINGH'S ADVOCACY OF THE PRIMACY
OF RURAL DEVELOPMENT TO BETTER THE LIVES OF THE INDIAN PEOPLE.
ON THE OTHER HAND, PETROLEUM AND CHEMICALS MINISTER BAHUGUNA
HAS CRITICIZED THE PLAN FOR PLACING TOO MUCH EMPHASIS ON
AGRICULTURE. HE HAS ARGUED THAT PUBLIC SECTOR INPUTS
INTO RURAL AREAS, SUCH AS IRRIGATION AND CREDIT, HAVE PRIMARILY
BENEFITED WEALTHY FARMERS IN THE PAST AND THAT THE PLAN
WOULD FURTHER INCREASE INCOME DISPARITIES IF BASIC RURAL PROBLEMS WER
E
NOT SOLVED. (A RECENT STUDY COMMISSIONED BY THE PLANNING
COMMISSION INDICATED THAT IN THE SEVERAL RURAL DISTRICTS
STUDIED THE TOP INCOME GROUPS HAD RECEIVED A DISPROPORTIONATELY
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LARGE SHARE OF GOVERNMENT OUTLAYS).

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6. COMMENT. ON BALANCE WE THINK THAT PATEL HAS ATTEMPTED WITH SOME SUCCESS TO SHIFT PLANNED SPENDING TOWARD THE JANATA'S ECONOMIC PRIORITIES, ALTHOUGH ONE SUSPECTS SOME JIGGLING OF FIGURES TO REACH THE 40 PERCENT COMMITMENT ON AGRICULTURE MADE BY THE POLITICAL LEADERSHIP. HE DID NOT HAVE MUCH ROOM FOR MANEUVER BECAUSE, AS HE EXPLAINED TO THE PARLIAMENT, CONTINUING SCHEMES ACCOUNT FOR ALMOST ALL (ABOUT 90 PERCENT) OF PLAN EXPENDITURES. OF THE NEW PROJECTS, COSTING RS.11.8 BILLION, APPROXIMATELY 70 PERCENT IS FOR AGRICULTURE/RURAL DEVELOPMENT, WHICH MEANS A SUBSTANTIAL SHIFT ON THE MARGIN. WE ARE DOUBTFUL, HOWEVER, THAT THESE GOOD INTENTIONS CAN BE TRANSLATED INTO EFFECTIVE REALITY, AT LEAST IN THE SHORT TERM. THE OLD PROBLEMS, PARTICULARLY AS THEY APPLY TO RURAL AREAS, REMAIN: BREAUCRATIC INEFFICIENCY, LACK OF ADMINISTRATIVE CAPACITY, CENTRER-STATE RIVALRIES, ANTI-QUATED INSTITUTITONAL PATTERNS, ECONOMIC AND SOCIAL

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DISPARITIES. THUS, WHILE MOVEMENT SEEMS TO BE IN THE RIGHT DIRECTION, THE PLAN OBJECTIVES, EVEN THOUGH MODEST, WILL BE DIFFICULT TO HIT.

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